



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Report of the auditor-general to the North West provincial legislature and the council on the Ramotshere Moiloa Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Ramotshere Moiloa Local Municipality set out on pages xx to xx, which comprise of the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, and cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Ramotshere Moiloa Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for property, plant and equipment due to the status of the accounting records. I was unable to confirm these assets by alternative means. In addition, the municipality did not correctly measure property, plant and equipment in accordance with GRAP 17, *Property, plant and equipment* as depreciation was incorrectly calculated and capital expenditure on ongoing capital projects was not correctly accounted for. This resulted in property, plant and equipment being understated and total expenditure being overstated by R13 619 260 (2016: R9 366 332). There was also a resultant impact on the deficit for the year and the accumulated surplus. Consequently, I was unable to determine whether any further adjustments to property, plant and equipment of R578 543 449 (2016: R573 918 487) disclosed in note 9 to the financial statements or the depreciation and amortisation expense of R30 503 754 (2016: R39 977 780) were necessary.

Investment property

4. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for investment property in the financial statements. As described in note 39 to the financial statements, the restatement was made to rectify a previous year



misstatement, but it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to investment property of R54 972 872 (2016: R55 333 529) and inventory of R7 893 602 (2016: R6 947 450) in note 8 and 2 respectively to the financial statements was necessary.

Receivables from non-exchange transactions

5. I was unable to obtain sufficient appropriate audit evidence for receivables from non-exchange transactions due to the status of the accounting records. I could not confirm the receivables from non-exchange transactions by alternative means. Consequently, I was unable to determine whether any further adjustment to receivables from non-exchange transactions of R6 765 865 (2016: R7 204 253) as disclosed in note 5 to the financial statements was necessary.

Consumer debtors

6. I was unable to obtain sufficient appropriate audit evidence for consumer debtors, including the allowance for impairment, the VAT on the debtors and other related disclosures as per note 6 to the financial statements, due to the status of the accounting records. I was unable to confirm these consumer debtors and allowance for impairment by alternative means. Consequently, I was unable to determine whether any adjustments relating to consumer debtors of R63 404 654 (2016: R44 519 126), the debt impairment expense of R4 854 706 (2016: R4 555 567) or the VAT payable of R1 461 039 (2016: R7 710 904) included in the financial statements were necessary.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for trade payables and other payables included in payables from exchange transactions due to the status of the accounting records. I could not confirm these payables by alternative means. Consequently, I was unable to determine whether any adjustment to payables from exchange transactions of R97 112 279 (2016: R66 820 531) as disclosed in note 14 to the financial statements was necessary.

Provisions

8. The municipality did not correctly recognise the provision for the landfill site rehabilitation in accordance with GRAP 19, *Provisions, contingent liabilities and contingent assets* due to the environmental rehabilitation not agreeing to the underlying records. Consequently, provision for the environmental rehabilitation included in provisions disclosed in note 19 to the financial statements was understated by R11 448 000 (2016: R11 431 000), general expenses was overstated by R17 000 (2016: R4 019 030) and property, plant and equipment was understated by R7 411 971 (2016: R7 411 971). Additionally, there was a resultant impact on the deficit for the period and accumulated surplus.

Revenue from exchange transactions

9. The municipality did not correctly recognise revenue in accordance with GRAP 9, *Revenue from exchange transactions* as sewerage and sanitation charges were calculated using inaccurate information. As a result, service charge revenue was understated by R12 265 964 and consumer debtors was understated by R13 983 199 and the VAT payable was understated by R1 717 234. Additionally, there was a resultant impact on the deficit for the period and on the accumulated surplus. Further, I was unable to obtain sufficient appropriate audit evidence for service charges and licences and permits due to the status of the accounting records. I could not confirm the transactions in service charges and licences and permits by alternative means. Consequently, I was unable to determine whether any further adjustments to service charges of R67 985 005, licences and permits of R2 778 840, consumer debtors of R63 404 654 or receivables from exchange transactions of R670 313 in the financial statements were necessary.

Revenue from non-exchange transactions

10. The municipality did not appropriately recognise revenue from property rates and traffic fines in accordance with GRAP 23, *Revenue from non-exchange transactions* as corrections relating to property rates of 2015 being incorrect processes and property rates not being charged on all properties per the valuation roll in the current period. Consequently, revenue from property rates was overstated by R6 466 751 (2016: R11 856 630), consumer debtors was understated by R6 625 534 (2016: R158 783) and the corresponding figure for fines, penalties and forfeits and receivables from non-exchange transactions was overstated by R2 469 344. Additionally, there was a resultant impact on the deficit (2016: Surplus) for the year and on the accumulated surplus in the financial statements.
11. I was unable to obtain sufficient appropriate audit evidence for revenue from government grants and subsidies due to the status of the accounting records. In addition, the municipality were providing retail water services on behalf of the district municipality and as per the agreement with the district municipality, the actual cost incurred by the municipality for the provision for free basic water and sanitation services shall be paid by the district municipality. As the municipality did not maintain adequate records of these cost or amounts received from the district I was unable to determine the resultant understatement relating to these services. I could not confirm these government grants and subsidies or related receivables and payable by alternative means. Consequently, I was unable to determine whether any adjustments to government grants and subsidies of R168 002 587(2016: R206 904 159), receivables from non-exchange transactions of R6 765 865 (2016: R7 204 253), unspent conditional grants and receipts of R2 203 504 (2016: R1 776 598) or any related expenditure or payable were necessary.

General expenses

12. Penalties and interest charged on VAT was incorrectly accounted for in the financial statements resulting in general expenses and VAT payable being overstated by R307 208. In addition, I was unable to obtain sufficient appropriate audit evidence for general expenses in the financial statements, due to the state of the municipality's accounting records. I was unable to confirm general expenses by alternative means. Consequently, I was unable to determine whether any further adjustments to general expenses of R49 195 939 (2016: R63 734 108) as disclosed in note 31 and VAT payable of R1 461 039 (2016: R7 710 904) as disclosed in note 15 to the financial statements were necessary.

Statement of comparison of budget and actual amounts

13. The municipality did not appropriately presented budgeted and actual amounts as required by GRAP 24, *Presentation of budget information in the financial statements*. The amounts disclosed as the final budget amounts do not agree to the final adjustment budget of the municipality. Consequently, the differences between the budget and actual amounts and the reasons for variances are not a fair reflection of the actual differences.

Distribution losses

14. The municipality did not disclose the water distribution losses in the financial statements as required by section 125 (2)(d)(i) of the MFMA. As the municipality does not have adequate control measures in place to accurately determine the extent of water distribution losses, I was unable to determine the full extent of the distribution losses, as it was impracticable to do so.

Commitments

15. During 2016, the municipality did not disclose all contractual commitments for the acquisition of property, plant and equipment as required by GRAP 17, *Property, plant and equipment*. Commitments of R18 483 731 as disclosed in note 37 to the financial statements was understated by R15 073 677. My audit opinion on the financial statements for the period ended 30 June 2016 was modified accordingly. As the corresponding figure was still not corrected,

my opinion on the current period's financial statements is also modified because of the effect of this matter on the comparability of the current period's figures.

Prior period errors

16. I was unable to obtain sufficient appropriate audit evidence for the adjustments made to correct prior period errors as sufficient appropriate evidence was not provided. I was unable to confirm the disclosed amounts and explanations by alternative means. Consequently, I was unable to determine whether the adjustments made correct prior period errors has been appropriate disclosed as per note 39 to the financial statements.

Risk management

17. The municipality did not disclose a summary of quantitative data about its exposure to that risk at the end of the reporting period for each or each type of risk arising from financial instruments and other related disclosure requirements as required by GRAP 104, *Financial instruments*. Consequently, the municipality did not disclose all the required information that enables users of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the entity is exposed to in note 40 to the financial statements. I was unable to practicably determine the impact of the omitted disclosure.

Context for the opinion

18. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report
19. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code
20. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

21. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unauthorised, irregular and fruitless and wasteful expenditure

22. As disclosed in note 42 to the financial statements, unauthorised expenditure of R2 038 640 was incurred in the current year and the unauthorised expenditure of R128 481 935 in respect of prior years had not yet been dealt with in accordance with section 32 of the MFMA.
23. As disclosed in note 43 to the financial statements, fruitless and wasteful of R4 236 113 was incurred in the current year and fruitless and wasteful of R4 530 260 from prior years had not yet been dealt with in accordance with section 32 of the MFMA.
24. As disclosed in note 44 to the financial statements, irregular expenditure of R31 463 360 was incurred in the current year and irregular expenditure of R109 153 603 from prior years had not yet been dealt with in accordance with section 32 of the MFMA

Material losses

25. As disclosed in note 48 of the financial statements, material losses relating to electricity distribution of R10 839 200 were incurred.

Other matter

26. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

27. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the financial statements

28. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA standards of GRAP and the requirements of the MFMA and the DoRA and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

29. In preparing the financial statements, the accounting officer is responsible for assessing the municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the municipality or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

30. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

31. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

32. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected programme presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.

33. My procedures address the reported performance information, which must be based on the approved performance planning documents of the Municipality. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

34. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected programmes presented in the annual performance report of the local municipality for the year ended 30 June 2017:

Programme	Pages in the annual performance report
KPA 3: Basic services and infrastructure development	42 – 48

35. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
36. The material findings in respect of the usefulness and reliability of the selected program are as follows:

Programme 3 - Basic service and infrastructure development

Indicator: Number of kilometres of roads paved in the municipal area during 2016/2017

37. The reported achievement of was misstated as the evidence provided indicated 3.765 kilometres and not 4.5 kilometres as reported.

Indicator: Number of reports on electrical network maintained

38. The reported achievement was misstated as the evidence provided indicated one report and not four reports as reported. In addition, the target for the indicator was not specific in clearly identifying the nature and required level of performance and measurable during the planning process, as required by the Framework for managing programme performance information (FMPPI).

Indicator: Number of illegal dumping sites cleansed

39. The municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement for this indicator. Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided did not agree to the recorded achievements. This resulted in a misstatement of the reported achievement as the evidence provided indicated that it was one and not seventeen as reported. I was also unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustment were required to the reported achievement.

Various indicators: Performance indicators are not measurable and reliable

40. The targets for the following indicators listed below were not specific in clearly identifying the nature and required level of performance and measurable during the planning process, as required by the FMPPI. In addition, the municipality did not have an adequate performance management system to maintain records to enable reliable reporting on achievement of targets. Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided did not agree to the recorded achievements. This resulted in a misstatement of the target achievement reported as per the evidence provided by management. I was also unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any further adjustments were required to the reported achievements.

Indicator	Strategic objective	Reported achievement	Audited value
Percentage of water connections completed	Facilitate the provision of Water	Not achieved	86.2%
Percentage of sewer connections completed	Facilitate the provision of sanitation	Not achieved	92.3%

Various indicators: Performance indicators are not supported by reliable evidence

41. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following indicators. This was due to a lack of appropriate performance management systems and processes that predetermined how the achievement would be measured, monitored and reported, as required by the Framework for managing programme performance information. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator	Strategic objective	Reported achievement
Number of kilometres of roads bladed	Build and maintain roads and storm water	62.2
Number of kilometres of roads re-gravelled	Build and maintain roads and storm water	46.7
Square meters of roads patched	Build and maintain roads and storm water	4574
Square meters of storm-water maintained	Build and maintain roads and storm water	5314
Number of Anti-littering and Clean-up campaigns conducted	Promote greening , sustainable development, clean and safe environment	3

Various indicators: Performance targets are not specific

42. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the following targets. This was due to a lack of appropriate performance management systems and processes that predetermined how the achievement would be measured, monitored and reported and the targets not being specific in clearly identifying the nature and required level of performance and measurable during the planning process, as required by the FMPPI. I was unable to confirm that the reported achievements of these indicators was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

Indicator	Strategic objective	Reported achievement
Percentage of electricity connections completed	Facilitate the provision of electricity	100%
Number of joint- public safety operations conducted	Facilitate the provision and maintenance of Community Infrastructure, public safety and traffic control	19

Various indicators: Performance indicators are not relevant and reported achievements did not agree with the evidence provided

43. The reported achievement for the following indicators listed below were misstated as the evidence provided did not agree to the reported achievements. In addition, these indicators did not relate to the strategic objective which it aimed to achieve, as required by the FMPPI.

Indicator	Strategic objective	Reported achievement	Audited value
Number of reports submitted to Council on maintenance of water network to reduce water losses	Facilitate the provision of Water	4	1
Number of reports submitted to Council on maintenance of street lights and High Mast Lights	Facilitate the provision of electricity	4	1
Number of reports submitted to Council on the Enforcement of Municipal by-laws	Promote greening , sustainable development, clean and safe environment	4	0

Various indicators: Key performance indicators not well-defined

44. The source information and method of calculation for the achievement of the following planned indicators were not clearly defined, as required by the FMPPI.

Indicator	Strategic objective	Reported achievement
Number of projects on the Installation of fire detectors	Promote greening , sustainable development, clean and safe environment	0
Number of Cemetery Management system installed	Provide and Maintain cemeteries	0

Various indicators: Key performance indicators not relevant

45. There was no clear and logical link between these indicators and the strategic objective to which it relates, as required by the FMPPI. The indicators and related targets focused on producing reports and plans, while the strategic objective is aimed at achieving service delivery objectives.

Indicator	Strategic objective	Reported achievement
Number of reports on the utilisation of libraries submitted to Council	Facilitate the provision and maintenance of Community Infrastructure, public safety and traffic control	4
Number of reports submitted to Council on the Provision of security services (including cash-in-transit)	Promote greening , sustainable development, clean and safe environment	4

Indicator	Strategic objective	Reported achievement
Number of external audit conducted on all the landfill sites	Promote greening , sustainable development, clean and safe environment	1
Number of Disaster Management Plans developed	Promote greening , sustainable development, clean and safe environment	Not Achieved

Other matter

46. I draw attention to the matter below.

Achievement of planned targets

47. Refer to the annual performance report on pages [XX] to [XX] for information on the achievement of planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 37 to 45 of this report.

Report on audit of compliance with legislation

Introduction and scope

48. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
49. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

Strategic planning and performance management

50. The integrated development plan (IDP) did not include the council's key performance indicators and targets and a financial plan, as required by sections 26 [(a), of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) and regulations 2(1)(c) and 2(3) of the Municipal planning and performance management regulations.
51. A performance management system was not established as required by section 38(a) of the MSA and regulation 8 of the municipal planning and performance management regulations.
52. Performance targets were not set for each of the key performance indicators for the financial year as required by section 41(1)(b) of the MSA and regulation 12(1) of the municipal planning and performance management regulations.
53. The IDP was not drafted considering the integrated development process and proposals submitted by the district municipality as required by section 29(3) of the MSA.

Budgets

54. Reasonable steps were not taken to prevent unauthorised expenditure of R2 038 640, as disclosed in note 42 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the unauthorised expenditure was caused by overspending on votes.

Annual financial statements, performance and annual reports

55. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue, expenditure and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.
56. The annual performance report for the year under review did not include a comparison with the previous financial year, as required by section 46(1)(b) of the MSA.
57. The 2015-16 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the MFMA.
58. The 2015-16 annual report was not published for the local community to submit representations in connection with the annual report, as required by section 127(5)(a) of the MFMA.
59. The council failed to adopt an oversight report containing the council's comments on the annual report within the prescribed timelines, as required by section 129(1) of the MFMA.

Procurement and contract management

60. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
61. Construction contracts were awarded to contractors that were not registered with the CIDB in accordance with section 18(1) of the CIDB Act and CIDB regulations 17 and 25(7A). Similar non-compliance was also reported in the prior year.
62. Bid documentation for procurement of some of the commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1).
63. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1).
64. The performance of some of the contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
65. Some of the contracts were extended or modified without the approval of a properly delegated official, in contravention of SCM regulation 5.

Expenditure management

66. Effective steps were not taken to prevent irregular expenditure of R31 463 360 as disclosed in note 44 to the financial statements, as required by section 62(1)(d) of the MFMA. The majority of the irregular expenditure was caused by non-adherence to SCM policies.
67. Effective steps were not taken to prevent fruitless and wasteful expenditure of R4 236 113, as disclosed in note 43 to the financial statements, in contravention of section 62(1)(d) of the MFMA. The majority of the disclosed fruitless and wasteful expenditure was caused by fines and penalties on late payments.
68. An effective system of expenditure control, including procedures for the payment of funds, was not in place, as required by section 65(2)(a) of the MFMA.
69. An adequate management, accounting and information system was not in place which recognised expenditure when it was incurred and accounted for creditors accounted, as required by section 65(2)(b) of the MFMA.

70. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

Revenue management

71. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

Assets management

72. An adequate management, accounting and information system which accounts for assets was not in place, as required by section 63(2)(a) of the MFMA.
73. An effective system of internal control for assets including an asset register was not in place, as required by section 63(2)(c) of the MFMA.
74. The municipality did not establish an investment policy that was adopted by the council, as required by section 13(2) of the MFMA.
75. Capital assets were permanently disposed of without the approval of the council and or the accounting officer, as required by section 14(2)(a) of the MFMA.

Consequence management

76. Unauthorised, irregular and fruitless and wasteful expenditure, incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of sections 32(2)(a) and (b) of the MFMA.

Human resource management

77. An approved staff establishment was not in place, as required by section 66(1)(a) of the MSA.
78. The municipal manager and senior managers did not sign performance agreements within the prescribed period, as required by section 57(2)(a) of the MSA.

Other information

79. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report . The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
80. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
81. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
82. I did not receive the other information prior to the date of the auditor's report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to re-issue my auditor's report amended as appropriate.

INTERNAL CONTROL

83. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

- Leadership did not provide effective leadership based on a culture of honesty, ethical business practices and good governance, protecting and enhancing the best interests of the municipality. Furthermore, there was lack of oversight responsibility regarding financial and performance reporting and compliance and related internal controls
- Management did not design and implement internal control to provide reasonable assurance about the achievement of an entity's objectives with regard to the reliability of financial reporting, the effectiveness and efficiency of operations, and compliance with applicable legislation. Furthermore, the action plan was not adequate to address prior year audit findings; consequently there were numerous instances of repeat audit findings identified during the current financial year's audit.
- Internal audit was not adequately resourced to monitoring and evaluating internal controls as a result it was unable to identify internal control deficiencies and recommend corrective action effectively. Further, the audit committee did not sufficiently provide assurance on the quality of the financial statements and performance reports prior to submission for audit and as a result numerous fundamental accounting misstatements were identified during the audit which could have reasonably been prevented had proper review been done.

Other reports

84. I draw attention to the following engagement that had, or could have, an impact on the matters reported in the municipalities financial statements, reported performance information, compliance with applicable legislation and other related matters. This report did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

85. A forensic investigation was conducted by an independent consulting firm into various irregularities relating to the sale of land, procurement and other matters. The report was finalised on 16 September 2016 and issued to the acting municipal manager and submitted to council on 31 March 2017. The findings of the report has not yet been addressed.

Rustenburg

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected programmes and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor’s report, I also:

identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control.

evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.

conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Ramotshere Moiloa Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor’s report. However, future events or conditions may cause a municipality to cease to continue as a going concern.

evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.